

*Stephenson, Gracik & Co., P.C.*  
Certified Public Accountants & Consultants

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TOWNSHIP OF BALDWIN  
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED MARCH 31, 2004

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

|   |                                   |  |                        |
|---|-----------------------------------|--|------------------------|
| Local Government Type<br><input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other |                                   | Local Government Name<br><b>TOWNSHIP OF BALDWIN</b>                | County<br><b>IOSCO</b> |
| Audit Date<br><b>03/31/2004</b>   | Opinion Date<br><b>05/19/2004</b> | Date Accountant Report Submitted to State:<br><b>July 13, 2004</b> |                        |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

|   | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations.                                   | ✓        |                 |              |
| Reports on individual federal financial assistance programs (program audits). |          |                 | ✓            |
| Single Audit Reports (ASLGU).   |          |                 | ✓            |

|   |                           |                    |                     |
|---|---------------------------|--------------------|---------------------|
| Certified Public Accountant (Firm Name) <b>STEPHENSON, GRACIK &amp; CO., P.C.</b> |                           |                    |                     |
| Street Address<br><b>325 NEWMAN STREET, PO BOX 592</b>                            | City<br><b>EAST TAWAS</b> | State<br><b>MI</b> | ZIP<br><b>48730</b> |
| Accountant Signature<br><b>Donald W Branner CPA</b>                               |                           |                    |                     |

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## AUDITORS' REPORT

### PAGE

INDEPENDENT AUDITORS' REPORT

1

### GENERAL PURPOSE FINANCIAL STATEMENTS

EXHIBIT A COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

2

EXHIBIT B COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES  
IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES

3

EXHIBIT C COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL AND  
SPECIAL REVENUE FUNDS

4

EXHIBIT D COMBINED STATEMENT OF REVENUE, EXPENSES AND CHANGES IN  
RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES -  
ENTERPRISE FUNDS

5

EXHIBIT E COMBINED STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUND  
TYPES - ENTERPRISE FUNDS

6

EXHIBIT F NOTES TO FINANCIAL STATEMENTS

7 - 22

### OTHER DATA

REPORT ON OTHER DATA

23

### GENERAL FUND

EXHIBIT G BALANCE SHEET

24

EXHIBIT H STATEMENT OF REVENUE - BUDGET AND ACTUAL

25

EXHIBIT I STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL

26

### ALL SPECIAL REVENUE FUNDS

EXHIBIT J COMBINING BALANCE SHEET

27

EXHIBIT K COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES  
IN FUND BALANCES

28

### ALL PROPRIETARY FUND TYPES - ENTERPRISE FUNDS

EXHIBIT L COMBINING BALANCE SHEET

29

EXHIBIT M COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES  
IN RETAINED EARNINGS

30

EXHIBIT N STATEMENT OF REVENUE, EXPENSES AND CHANGES IN RETAINED  
EARNINGS - BUDGET AND ACTUAL

31

EXHIBIT O COMBINING STATEMENT OF CASH FLOWS

32

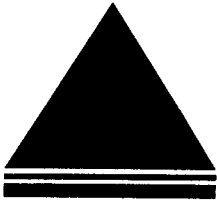
### ALL TRUST AND AGENCY FUNDS

EXHIBIT P STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

33

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

34



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May 19, 2004

Independent Auditors' Report

Members of the Township Board  
Township of Baldwin  
Iosco County, Michigan

We have audited the accompanying general purpose financial statements of the Township of Baldwin, Iosco County, Michigan, as of and for the year ended March 31, 2004, as listed in the index. These general purpose financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Township of Baldwin, Iosco County, Michigan, as of March 31, 2004, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2004, on our consideration of the Township of Baldwin's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Stephenson, Gracik & Co., P.C.*

TOWNSHIP OF BALDWIN  
Iosco County, Michigan

COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
March 31, 2004  
With Comparative Totals for March 31, 2003

|  | Governmental Fund Types |                 | Proprietary Fund Type | Fiduciary Fund Type | Account Groups |                  | Totals (Memorandum Only) |                        |
|--|-------------------------|-----------------|-----------------------|---------------------|----------------|------------------|--------------------------|------------------------|
|  | General                 | Special Revenue |                       |                     | Enterprise     | Trust and Agency | General Fixed Assets     | General Long-Term Debt |
| <b>ASSETS</b>  |                         |                 |                       |                     |                |                  |                          |                        |
| Cash (Note 2)  | \$ 26,934               | \$ 406,528      | \$ 252,611            | \$ 3,698            | \$ 0           | \$ 0             | \$ 689,771               | \$ 580,031             |
| Certificates of deposit (Note 2)                               | 15,000                  | 0               | 207,563               | 0                   | 0              | 0                | 222,563                  | 128,395                |
| Cash - escrow bond account (Note 2)                            | 0                       | 0               | 9,615                 | 0                   | 0              | 0                | 9,615                    | 261,607                |
| Investments (Note 2)   | 275,319                 | 333,401         | 1,053,969             | 0                   | 0              | 0                | 1,662,689                | 1,946,425              |
| Receivables:   |                         |                 |                       |                     |                |                  |                          |                        |
| Taxes  | 0                       | 67,519          | 3,839                 | 0                   | 0              | 0                | 71,358                   | 97,283                 |
| Assessments  | 0                       | 0               | 988,041               | 0                   | 0              | 0                | 988,041                  | 1,093,421              |
| Accounts   | 0                       | 0               | 27,613                | 0                   | 0              | 0                | 27,613                   | 23,069                 |
| Due from state   | 0                       | 0               | 0                     | 0                   | 0              | 0                | 0                        | 1,239                  |
| Due from local units   | 0                       | 0               | 0                     | 0                   | 0              | 0                | 0                        | 5,295                  |
| Due from other funds (Note 4)                                  | 2,125                   | 648             | 7,777                 | 0                   | 0              | 0                | 10,550                   | 13,960                 |
| Restricted assets:   |                         |                 |                       |                     |                |                  |                          |                        |
| Cash (Note 2)  | 0                       | 0               | 260,946               | 0                   | 0              | 0                | 260,946                  | 0                      |
| Prepaid expense  | 0                       | 0               | 0                     | 0                   | 0              | 0                | 0                        | 7,771                  |
| Property, plant and equipment (Note 5)                         | 0                       | 0               | 4,717,229             | 0                   | 345,468        | 0                | 5,062,697                | 4,681,225              |
| Accumulated depreciation (Note 5)                              | 0                       | 0               | (874,321)             | 0                   | 0              | 0                | (874,321)                | (783,645)              |
| Amount to be provided for retirement of general long-term debt | 0                       | 0               | 0                     | 0                   | 0              | 185,081          | 185,081                  | 211,518                |
| Total Assets   | \$ 319,378              | \$ 808,096      | \$ 6,654,882          | \$ 3,698            | \$ 345,468     | \$ 185,081       | \$ 8,316,603             | \$ 8,267,594           |
| <b>LIABILITIES AND FUND EQUITY</b>                             |                         |                 |                       |                     |                |                  |                          |                        |
| <b>Liabilities</b>   |                         |                 |                       |                     |                |                  |                          |                        |
| Accounts payable   | \$ 1,101                | \$ 7,011        | \$ 8,027              | \$ 0                | \$ 0           | \$ 0             | \$ 16,139                | \$ 46,994              |
| Accrued interest   | 0                       | 0               | 16,357                | 0                   | 0              | 0                | 16,357                   | 14,088                 |
| Accrued liabilities  | 11                      | 0               | 0                     | 0                   | 0              | 0                | 11                       | 10                     |
| Due to other funds (Note 4)                                    | 376                     | 7,657           | 1,195                 | 1,322               | 0              | 0                | 10,550                   | 13,960                 |
| Due to local units   | 0                       | 0               | 0                     | 2,159               | 0              | 0                | 2,159                    | 165                    |
| Due to others  | 0                       | 0               | 0                     | 10                  | 0              | 0                | 10                       | 7,481                  |
| Due to state   | 0                       | 0               | 0                     | 207                 | 0              | 0                | 207                      | 0                      |
| Contracts payable (Note 8)                                     | 0                       | 0               | 1,133,385             | 0                   | 0              | 185,081          | 1,318,466                | 1,438,191              |
| Bonds payable (Note 8)   | 0                       | 0               | 1,105,000             | 0                   | 0              | 0                | 1,105,000                | 1,160,000              |
| Total liabilities  | 1,488                   | 14,668          | 2,263,964             | 3,698               | 0              | 185,081          | 2,468,899                | 2,680,889              |
| <b>Fund Equity</b>   |                         |                 |                       |                     |                |                  |                          |                        |
| Contributed capital, net                                       | 0                       | 0               | 2,969,413             | 0                   | 0              | 0                | 2,969,413                | 3,001,239              |
| Investment in general fixed assets                             | 0                       | 0               | 0                     | 0                   | 345,468        | 0                | 345,468                  | 331,042                |
| Retained Earnings:   |                         |                 |                       |                     |                |                  |                          |                        |
| Reserved for capital improvements                              | 0                       | 0               | 260,946               | 0                   | 0              | 0                | 260,946                  | 0                      |
| Unreserved   | 0                       | 0               | 1,160,559             | 0                   | 0              | 0                | 1,160,559                | 1,298,138              |
| Fund Balances:   |                         |                 |                       |                     |                |                  |                          |                        |
| Unreserved:  |                         |                 |                       |                     |                |                  |                          |                        |
| Undesignated   | 317,890                 | 793,428         | 0                     | 0                   | 0              | 0                | 1,111,318                | 956,286                |
| Total fund equity  | 317,890                 | 793,428         | 4,390,918             | 0                   | 345,468        | 0                | 5,847,704                | 5,586,705              |
| Total Liabilities and Fund Equity                              | \$ 319,378              | \$ 808,096      | \$ 6,654,882          | \$ 3,698            | \$ 345,468     | \$ 185,081       | \$ 8,316,603             | \$ 8,267,594           |

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF BALDWIN  
Iosco County, Michigan

COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES  
 IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES

For the Year Ended March 31, 2004

With Comparative Totals for the Year Ended March 31, 2003

|  |                   |                   | Totals (Memorandum Only) |                   |
|--|-------------------|-------------------|--------------------------|-------------------|
|  |                   |                   | Year Ended               |                   |
|  | General           | Special Revenue   | March 31, 2004           | March 31, 2003    |
| <u>Revenue</u>   |                   |                   |                          |                   |
| Taxes  | \$ 91,553         | \$ 313,109        | \$ 404,662               | \$ 439,719        |
| Licenses and permits   | 3,425             | 0                 | 3,425                    | 1,945             |
| Federal grants   | 5,125             | 0                 | 5,125                    | 0                 |
| State revenue  | 124,583           | 0                 | 124,583                  | 124,133           |
| Charges for services   | 12,223            | 5,973             | 18,196                   | 18,348            |
| Interest earned  | 3,891             | 4,208             | 8,099                    | 11,256            |
| Other  | 1,795             | 0                 | 1,795                    | 1,466             |
| Total revenue  | <u>242,595</u>    | <u>323,290</u>    | <u>565,885</u>           | <u>596,867</u>    |
| <u>Expenditures</u>  |                   |                   |                          |                   |
| Current:   |                   |                   |                          |                   |
| General government   | 135,435           | 0                 | 135,435                  | 129,680           |
| Public safety  | 0                 | 66,162            | 66,162                   | 63,305            |
| Public works   | 11,651            | 146,853           | 158,504                  | 157,427           |
| Recreation   | 655               | 0                 | 655                      | 465               |
| Planning and zoning  | 20,484            | 0                 | 20,484                   | 16,174            |
| Other  | 10,451            | 4,330             | 14,781                   | 23,366            |
| Capital outlay   | 2,245             | 12,181            | 14,426                   | 208,554           |
| Total expenditures   | <u>180,921</u>    | <u>229,526</u>    | <u>410,447</u>           | <u>598,971</u>    |
| Excess of revenue over (under) expenditures                                  | <u>61,674</u>     | <u>93,764</u>     | <u>155,438</u>           | <u>(2,104)</u>    |
| <u>Other Financing Sources (Uses)</u>  |                   |                   |                          |                   |
| Operating transfers in   | 0                 | 82,893            | 82,893                   | 7,676             |
| Operating transfers out  | (83,299)          | 0                 | (83,299)                 | (7,676)           |
| Total other financing sources (uses)   | <u>(83,299)</u>   | <u>82,893</u>     | <u>(406)</u>             | <u>0</u>          |
| Excess of revenue and other sources over (under) expenditures and other uses | <u>(21,625)</u>   | <u>176,657</u>    | <u>155,032</u>           | <u>(2,104)</u>    |
| Fund balances - beginning of year  | <u>339,515</u>    | <u>616,771</u>    | <u>956,286</u>           | <u>958,390</u>    |
| Fund balances - end of year  | <u>\$ 317,890</u> | <u>\$ 793,428</u> | <u>\$ 1,111,318</u>      | <u>\$ 956,286</u> |

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF BALDWIN  
Iosco County, Michigan

COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS  
For the Year Ended March 31, 2004

|  | General Fund |            |                                    | Special Revenue Fund |            |                                    | Totals (Memorandum Only) |              |                                    |
|--|--------------|------------|------------------------------------|----------------------|------------|------------------------------------|--------------------------|--------------|------------------------------------|
|  | Budget       | Actual     | Variance - Favorable (Unfavorable) | Budget               | Actual     | Variance - Favorable (Unfavorable) | Budget                   | Actual       | Variance - Favorable (Unfavorable) |
| <b>Revenue</b>   |              |            |                                    |                      |            |                                    |                          |              |                                    |
| Taxes  | \$ 94,685    | \$ 91,553  | \$ (3,132)                         | \$ 349,732           | \$ 313,109 | \$ (36,623)                        | \$ 444,417               | \$ 404,662   | \$ (39,755)                        |
| Licenses and permits   | 1,800        | 3,425      | 1,625                              | 0                    | 0          | 0                                  | 1,800                    | 3,425        | 1,625                              |
| Federal grants   | 5,125        | 5,125      | 0                                  | 0                    | 0          | 0                                  | 5,125                    | 5,125        | 0                                  |
| State revenue  | 130,592      | 124,583    | (6,009)                            | 0                    | 0          | 0                                  | 130,592                  | 124,583      | (6,009)                            |
| Charges for services   | 12,270       | 12,223     | (47)                               | 6,500                | 5,973      | (527)                              | 18,770                   | 18,196       | (574)                              |
| Interest earned  | 4,450        | 3,891      | (559)                              | 8,599                | 4,208      | (4,391)                            | 13,049                   | 8,099        | (4,950)                            |
| Other  | 910          | 1,795      | 885                                | 0                    | 0          | 0                                  | 910                      | 1,795        | 885                                |
| Total revenue  | 249,832      | 242,595    | (7,237)                            | 364,831              | 323,290    | (41,541)                           | 614,663                  | 585,885      | (28,778)                           |
| <b>Expenditures</b>  |              |            |                                    |                      |            |                                    |                          |              |                                    |
| Current:   |              |            |                                    |                      |            |                                    |                          |              |                                    |
| General government   | 154,484      | 135,435    | 19,049                             | 0                    | 0          | 0                                  | 154,484                  | 135,435      | 19,049                             |
| Public safety  | 0            | 0          | 0                                  | 66,200               | 66,162     | 38                                 | 66,200                   | 66,162       | 38                                 |
| Public works   | 12,100       | 11,651     | 449                                | 160,405              | 146,853    | 13,552                             | 172,505                  | 158,504      | 14,001                             |
| Recreation   | 2,000        | 655        | 1,345                              | 0                    | 0          | 0                                  | 2,000                    | 655          | 1,345                              |
| Planning and zoning  | 22,830       | 20,484     | 2,346                              | 0                    | 0          | 0                                  | 22,830                   | 20,484       | 2,346                              |
| Other  | 11,598       | 10,451     | 1,147                              | 4,500                | 4,330      | 170                                | 16,098                   | 14,781       | 1,317                              |
| Capital outlay   | 13,565       | 2,245      | 11,320                             | 222,000              | 12,181     | 209,819                            | 235,565                  | 14,426       | 221,139                            |
| Total expenditures   | 216,577      | 180,921    | 35,656                             | 453,105              | 229,526    | 223,579                            | 669,682                  | 410,447      | 259,235                            |
| Excess of revenue over (under) expenditures                                  | 33,255       | 61,674     | 28,419                             | (88,274)             | 93,764     | 182,038                            | (55,019)                 | 155,438      | 210,457                            |
| <b>Other Financing Sources (Uses)</b>  |              |            |                                    |                      |            |                                    |                          |              |                                    |
| Operating transfers in   | 0            | 0          | 0                                  | 0                    | 82,893     | 82,893                             | 0                        | 82,893       | 82,893                             |
| Operating transfers out  | (22,000)     | (83,299)   | (61,299)                           | 0                    | 0          | 0                                  | (22,000)                 | (83,299)     | (61,299)                           |
| Total other financing sources (uses)   | (22,000)     | (83,299)   | (61,299)                           | 0                    | 82,893     | 82,893                             | (22,000)                 | (406)        | 21,594                             |
| Excess of revenue and other sources over (under) expenditures and other uses | 11,255       | (21,625)   | (32,880)                           | (88,274)             | 176,557    | 264,931                            | (77,019)                 | 155,032      | 232,051                            |
| Fund balances - beginning of year  | 339,515      | 339,515    | 0                                  | 616,771              | 616,771    | 0                                  | 956,286                  | 956,286      | 0                                  |
| Fund balances - end of year  | \$ 350,770   | \$ 317,890 | \$ (32,880)                        | \$ 528,497           | \$ 793,428 | \$ 264,931                         | \$ 879,267               | \$ 1,111,318 | \$ 232,051                         |

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF BALDWIN  
Iosco County, Michigan

COMBINED STATEMENT OF REVENUE, EXPENSES  
 AND CHANGES IN RETAINED EARNINGS -  
 ALL PROPRIETARY FUND TYPES - ENTERPRISE FUNDS  
 For the Year Ended March 31, 2004  
With Comparative Totals for the Year Ended March 31, 2003

|   | Totals              |                     |
|---|---------------------|---------------------|
|   | March 31, 2004      | March 31, 2003      |
| <u>Operating Revenue</u>                |                     |                     |
| Charges for service                     | \$ 284,109          | \$ 302,886          |
| Interest earned                         | 3,820               | 2,974               |
| Other                                   | 3,118               | 0                   |
| Total operating revenue                 | <u>291,047</u>      | <u>305,860</u>      |
| <u>Operating Expenses</u>               |                     |                     |
| Operating supplies                      | 784                 | 0                   |
| Professional fees and services          | 102,067             | 71,828              |
| Water and sewer                         | 26,751              | 26,067              |
| Depreciation                            | 90,676              | 85,776              |
| Other                                   | 15,502              | 20,735              |
| Total operating expenses                | <u>235,780</u>      | <u>204,406</u>      |
| Operating income                        | <u>55,267</u>       | <u>101,454</u>      |
| <u>Non-Operating Revenue (Expenses)</u> |                     |                     |
| Current property taxes                  | 46,545              | 44,528              |
| Special assessments                     | 37,617              | 29,823              |
| Interest on special assessments         | 63,864              | 70,757              |
| Interest on investments                 | 10,201              | 19,620              |
| Bond acquisition costs                  | 0                   | (30,537)            |
| Contract payments                       | (22,036)            | (21,300)            |
| Interest expense                        | (138,009)           | (129,997)           |
| Paying agent fees                       | (2,597)             | (1,397)             |
| Total non-operating revenue (expenses)  | <u>(4,415)</u>      | <u>(18,503)</u>     |
| Income before operating transfers       | <u>50,852</u>       | <u>82,951</u>       |
| <u>Other Financing Sources (Uses)</u>   |                     |                     |
| Operating transfers in                  | 200,406             | 0                   |
| Operating transfers out                 | (200,000)           | 0                   |
| Total other financing sources (uses)    | <u>406</u>          | <u>0</u>            |
| Net income                              | 51,258              | 82,951              |
| Amortization of contributed capital     | 72,109              | 71,198              |
| Retained earnings - beginning of year   | 1,298,138           | 1,143,989           |
| Retained earnings - end of year         | <u>\$ 1,421,505</u> | <u>\$ 1,298,138</u> |

The accompanying notes to financial statements are an integral part of this statement.



TOWNSHIP OF BALDWIN  
Iosco County, Michigan

COMBINED STATEMENT OF CASH FLOWS -  
 ALL PROPRIETARY FUND TYPES - ENTERPRISE FUNDS  
 For the Year Ended March 31, 2004  
With Comparative Totals for the Year Ended March 31, 2003

|   | Totals              |                     |
|---|---------------------|---------------------|
|   | March 31, 2004      | March 31, 2003      |
| <u>Cash Flows From Operating Activities</u>                     |                     |                     |
| Cash received from customers                                    | \$ 307,285          | \$ 310,298          |
| Cash paid to suppliers and employees                            | (143,794)           | (118,386)           |
| Interest received   | 3,820               | 2,974               |
| Net cash provided by operating activities (Note 13)             | <u>167,311</u>      | <u>194,886</u>      |
| <u>Cash Flows From Noncapital Financing Activities</u>          |                     |                     |
| Property taxes received   | 45,639              | 45,038              |
| Special assessments received                                    | 222,380             | 218,795             |
| Cash received from (paid to) other funds                        | 5,022               | (4,201)             |
| Net cash provided by noncapital financing activities            | <u>273,041</u>      | <u>259,632</u>      |
| <u>Cash Flows From Capital and Related Financing Activities</u> |                     |                     |
| Proceeds from issuance of bonds                                 | 0                   | 355,000             |
| Acquisition and construction of capital assets                  | (382,846)           | (77,588)            |
| Bond acquisition costs paid                                     | 0                   | (30,537)            |
| Principal paid on contracts and bonds payable                   | (148,288)           | (132,252)           |
| Other contract payments   | (22,036)            | (21,300)            |
| Interest and fees paid on contracts payable                     | (130,566)           | (139,977)           |
| Net cash used by capital and related financing activities       | <u>(683,736)</u>    | <u>(46,654)</u>     |
| <u>Cash Flows From Investing Activities</u>                     |                     |                     |
| Purchase of investments   | (91,325)            | 0                   |
| Interest received on investments                                | 7,357               | 17,390              |
| Net cash provided (used) by investing activities                | <u>(83,968)</u>     | <u>17,390</u>       |
| Net increase (decrease) in cash and cash equivalents            | (327,352)           | 425,254             |
| Cash and cash equivalents at beginning of year (Note 1)         | <u>1,904,493</u>    | <u>1,479,239</u>    |
| Cash and cash equivalents at end of year (Note 1)               | <u>\$ 1,577,141</u> | <u>\$ 1,904,493</u> |

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF BALDWIN  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Township of Baldwin operates under an elected Township Board (five members) and provides services to its residents in many areas including road maintenance and fire protection.

The financial statements of the Township of Baldwin have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Township's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary Funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. All activities over which the Township exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Joint Venture

The Huron Shore Regional Utility Authority was established as a joint venture between the City of Tawas City, City of East Tawas, Charter Township of Oscoda, Charter Township of AuSable, Township of Alabaster, Township of Baldwin, all municipalities in Iosco County, and the Township of Greenbush in Alcona County. The Authority was established to acquire, own, improve, enlarge, extend and operate water supply and distribution systems and sewage disposal systems. The Township of Baldwin's contribution for the year ended March 31, 2004 was \$32,232. Complete financial statements can be obtained from the Huron Shore Regional Utility Authority's office.

C. Basis of Presentation

The financial activities of the Township of Baldwin are recorded in separate funds and account groups, categorized and described as follows:

1. Governmental Funds:

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state distributions, grants and other intergovernmental revenue.

Special Revenue Funds - These funds are used to account for specific governmental revenues (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

2. Proprietary Funds:

Enterprise Funds - These funds report operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriated for capital maintenance, public policy, management control or other purposes.

TOWNSHIP OF BALDWIN  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

3. Fiduciary Fund:

This fund is used to account for assets held in trust or an agent for others, and consists of the Current Tax Collection Fund.

4. Account Groups:

General Fixed Assets Account Group - This account group presents the fixed assets the local unit utilizes in its general operations. It does not include fixed assets recorded in the Proprietary Funds.

General Long-Term Debt Account Group - This account group presents the balance of the general obligation long-term debt which is not recorded in the Proprietary Funds.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available, means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Township, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the Township receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Township must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Township on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

The financial activity of the Agency Funds is limited to collection of amounts which are subsequently returned or paid to third parties and, accordingly, are limited to cash transactions.

The accounts of the Township are maintained on the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

1. Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Other revenue is recorded when received. The Township uses 60 days from the end of the fiscal year to measure availability.

TOWNSHIP OF BALDWIN  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County tax rolls.

For the current year, the taxable value for properties located within the Township was \$85,581,965. The tax rates were .7577 for operations, 1.0505 for fire protection, 1.6261 for refuse collection, .6000 for debt retirement and .4955 for roads.

2. Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.
3. Normally, expenditures are not divided between years by the recording of prepaid expenses.

E. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

F. Budgets and Budgetary Accounting

The Township normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Township Clerk submits to the Township Board a proposed operating budget which includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to April 1, the budget is legally enacted through passage of an ordinance.

All budget appropriations lapse at year-end. Budgetary amounts reported herein are as originally adopted, or as amended by the Township Board.

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved and amended by the Township Board.

G. Assets, Liabilities and Fund Equity

Interfund receivables and payables - Interfund receivables and payables have not been eliminated in the preparation of the Combined Balance Sheet (EXHIBIT A). Operating transfers in and out have not been offset in the preparation of the Combined Statement of Revenue, Expenditures and Changes in Fund Balances (EXHIBITS B and C) and the Combined Statement of Revenues and Expenses (EXHIBIT D).

TOWNSHIP OF BALDWIN  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Assets, Liabilities and Fund Equity (Continued)

Fixed Assets and Depreciation:

Enterprise Funds - Water and Sewer plants are stated at cost. Depreciation has been provided using the straight-line method over the estimated useful life of the assets.

General Fixed Assets - General fixed assets are recorded as expenditures at the time of purchase. The assets are then recorded in the fixed asset group of accounts to maintain their identity and related costs. Because original purchase documents were not available for the land and some building costs, the original cost of such assets has been estimated on the basis of such documentary evidence that was available including price levels at the time of acquisition.

Contributed Capital - Contributed capital consists of contributions from customers (special assessments and contract proceeds) utilized in the construction of fixed assets. Contributed capital is being amortized.

H. Revenue, Expenditures and Expenses

1. Property tax revenue is recognized when it becomes available. Available means when due, or past due and receivable within the current period. The Township uses 60 days from the end of the fiscal year to measure availability.
2. Revenue from the sale of Township services and assessments is recorded when billed. All other revenue is recognized when collected in cash.
3. Payrolls and other costs are recognized as incurred.
4. Provision for depreciation is provided with respect to plant and equipment of the Water and Sewer departments. Depreciation is computed by the straight-line method.

I. Statement of Cash Flows

For purposes of the statement of cash flows, all highly liquid investments and certificates of deposit with a maturity of three months or less when purchased are considered to be cash equivalents.

J. Retained Earnings

Reserved retained earnings represent the assets in the Water and Sewer Funds to be used for future capital improvements to the water and sewer systems.

TOWNSHIP OF BALDWIN  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 2 - DEPOSITS AND INVESTMENTS

The captions on the financial statements for the deposit and investment accounts are as follows:

|                            | <u>Deposits</u>     | <u>Investments</u>  | <u>Total</u>        |
|----------------------------|---------------------|---------------------|---------------------|
| Cash                       | \$ 689,771          | \$ 0                | \$ 689,771          |
| Certificates of deposit    | 222,563             | 0                   | 222,563             |
| Cash – escrow bond account | 9,615               | 0                   | 9,615               |
| Investments                | 0                   | 1,662,689           | 1,662,689           |
| Restricted cash            | <u>260,946</u>      | <u>0</u>            | <u>260,946</u>      |
|                            | <u>\$ 1,182,895</u> | <u>\$ 1,662,689</u> | <u>\$ 2,845,584</u> |

Deposits:

Deposits are carried at cost. Deposits of the Township are held at various financial institutions in the name of the Township and the cash-escrow account is in Iosco County's name held for Baldwin Township. At March 31, 2004, the carrying amounts of the Township's deposits were classified as to risk as follows:

|                              | <u>Carrying Amount</u> | <u>Bank Balance</u> |
|------------------------------|------------------------|---------------------|
| Insured (FDIC)               | \$ 291,697             | \$ 311,829          |
| Uninsured - uncollateralized | <u>891,198</u>         | <u>891,247</u>      |
|                              | <u>\$ 1,182,895</u>    | <u>\$ 1,203,076</u> |

Investments:

The Township Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Township to deposit and invest in the following:

- \* Accounts of federally insured banks, credit unions and savings and loan associations
- \* Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- \* United States government or federal agency obligation repurchase agreements
- \* Banker's acceptances of United States banks
- \* Commercial paper rated within the two highest classifications by not less than two standard rating services which matures not more than 270 days after the date of purchase
- \* Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Township's deposits and investments are in accordance with statutory authority.

TOWNSHIP OF BALDWIN  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments: (Continued)

The Township's investments are categorized to give an indication of the level of risk assumed by the Township at March 31, 2004. The categories are described as follows:

Category 1 - Insured or registered, with securities held by the entity or its agent in the entity's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the entity's name.

All investments at March 31, 2004 consisted of the following which are not required to be categorized.

|                                    | <u>Carrying<br/>Amount</u> | <u>Market<br/>Value</u> |
|------------------------------------|----------------------------|-------------------------|
| <u>Nonrisk-Categorized</u>         |                            |                         |
| Financial institution pooled funds | <u>\$ 1,662,689</u>        | <u>\$ 1,662,689</u>     |

NOTE 3 - UNEMPLOYMENT COMPENSATION

The Township is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Township must reimburse the Employment Agency for all benefits charged against the Township. No liabilities have been incurred as of March 31, 2004.

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of March 31, 2004 were as follows:

| <u>Fund</u>  | <u>Interfund<br/>Receivable</u> | <u>Fund</u>            | <u>Interfund<br/>Payable</u> |
|--------------|---------------------------------|------------------------|------------------------------|
| General Fund | \$ 482                          | Fire Fund              | \$ 482                       |
| General Fund | 747                             | Refuse Collection Fund | 747                          |
| General Fund | 551                             | Trust and Agency Fund  | 551                          |
| General Fund | 345                             | Water Fund             | 345                          |
| Water Fund   | 2,136                           | Fire Fund              | 2,136                        |
| Water Fund   | 3,297                           | Refuse Fund            | 3,297                        |
| Road Fund    | 101                             | Trust and Agency Fund  | 101                          |
| Fire Fund    | 215                             | Trust and Agency Fund  | 215                          |
| Refuse Fund  | 332                             | Trust and Agency Fund  | 332                          |
| Water Fund   | 123                             | Trust and Agency Fund  | 123                          |
| Water Fund   | 376                             | General Fund           | 376                          |
| Water Fund   | 995                             | Road Fund              | 995                          |
| Water Fund   | <u>850</u>                      | Sewer Fund             | <u>850</u>                   |
|              | <u>\$ 10,550</u>                |                        | <u>\$ 10,550</u>             |

TOWNSHIP OF BALDWIN  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 5 - CHANGES IN FIXED ASSETS

A summary of changes in general fixed assets follows:

|                         | Balance<br>April 1, 2003 | Additions        | Deletions   | Balance<br>March 31, 2004 |
|-------------------------|--------------------------|------------------|-------------|---------------------------|
| Land and improvements   | \$ 64,023                | \$ 3,541         | \$ 0        | \$ 67,564                 |
| Buildings               | 208,295                  | 0                | 0           | 208,295                   |
| Machinery and equipment | 58,724                   | 10,885           | 0           | 69,609                    |
|                         | <u>\$ 331,042</u>        | <u>\$ 14,426</u> | <u>\$ 0</u> | <u>\$ 345,468</u>         |

A summary of proprietary fund type property and plant at March 31, 2004 is as follows:

|                               | Water               | Sewer               | Total               |
|-------------------------------|---------------------|---------------------|---------------------|
| Property and plant            | \$ 2,936,641        | \$ 1,780,588        | \$ 4,717,229        |
| Less accumulated depreciation | (540,878)           | (333,443)           | (874,321)           |
|                               | <u>\$ 2,395,763</u> | <u>\$ 1,447,145</u> | <u>\$ 3,842,908</u> |

NOTE 6 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Township for these budgetary funds were adopted to the functional level.

During the year ended March 31, 2004, the Township incurred expenditures in the Special Revenue Funds which were in excess of the amounts appropriated as follows:

| Fund/Function           | Total<br>Appropriations | Amount of<br>Expenditures | Budget<br>Variance |
|-------------------------|-------------------------|---------------------------|--------------------|
| General Fund:           |                         |                           |                    |
| Operating transfers out | \$ 22,000               | \$ 83,299                 | \$ 61,299          |

NOTE 7 - PENSION PLAN

The Township has a defined contribution pension plan with Auto Owners Insurance Company effective February 1992. All full-time employees are covered under the plan. Eligibility to become a participant is limited to those employees who, on the effective date, have attained age 18. Vesting is 100% upon entering the plan. Each employee must contribute 7.0% of their gross earnings to the plan. The Township is required to contribute an amount equal to 7.0% of the employee's gross earnings.



TOWNSHIP OF BALDWIN  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 7 - PENSION PLAN (CONTINUED)

During the year, the Township did not have any current employees participating in the plan. No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees.

NOTE 8 - LONG-TERM DEBT

Iosco County Board of Public Works Contract

The Township entered into a joint water board agreement with the cities of East Tawas and Tawas City through the Iosco County Board of Public Works to finance the cost of improvements and additions of the water supply system. The Township's share is 25.9% of the total bond issue of \$783,000 or \$202,797. The balance remaining at March 31, 2004 was \$133,385.

The most current estimate of the Township's share of principal and interest requirements for each of the years succeeding March 31, 2004 is as follows:

| <u>Fiscal Year</u> | <u>Amount</u>     |
|--------------------|-------------------|
| 2004 - 05          | \$ 14,750         |
| 2005 - 06          | 14,841            |
| 2006 - 07          | 14,653            |
| 2007 - 08          | 14,200            |
| 2008 - 09          | 14,757            |
| 2010 - 2014        | 69,308            |
| 2015 - 2017        | <u>36,752</u>     |
|                    | 179,261           |
| Less interest      | <u>45,876</u>     |
| Total              | <u>\$ 133,385</u> |

Iosco County Board of Public Works Contract

The Township entered into a joint water supply system agreement with the County of Iosco to finance the cost of an extension of the water system to the Tawas Point Coastguardville area. The Township's obligation was originally for \$575,000 with varying interest rates from 3.25% to 5.80%. The balance remaining at March 31, 2004 was \$325,000.

TOWNSHIP OF BALDWIN  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 8 - LONG-TERM DEBT (CONTINUED)

Iosco County Board of Public Works Contract (Continued)

The most current estimate of the Township's share of principal and interest requirements for each of the years succeeding March 31, 2004 is as follows:

| <u>Fiscal Year</u> | <u>Amount</u>     |
|--------------------|-------------------|
| 2004 - 05          | \$ 43,450         |
| 2005 - 06          | 42,100            |
| 2006 - 07          | 40,725            |
| 2007 - 08          | 39,350            |
| 2008 - 09          | 37,950            |
| 2010 - 2014        | <u>239,075</u>    |
|                    | 442,650           |
| Less interest      | <u>117,650</u>    |
| Total              | <u>\$ 325,000</u> |

Tawas Utilities Authority Contract

The Township entered into an agreement with the Tawas Utilities Authority to finance the cost of an extension to the sewer system to the Tawas Point Coastguardville area. The Township's obligation was originally for \$650,000 with varying interest rates from 4.0% to 6.45%. The balance remaining at March 31, 2004 was \$415,000.

The most current estimate of the Township's share of principal and interest requirements for each of the years succeeding March 31, 2004 is as follows:

| <u>Fiscal Year</u> | <u>Amount</u>     |
|--------------------|-------------------|
| 2004 - 05          | \$ 69,923         |
| 2005 - 06          | 67,121            |
| 2006 - 07          | 64,309            |
| 2007 - 08          | 61,485            |
| 2008 - 09          | 58,639            |
| 2010 - 2013        | <u>215,110</u>    |
|                    | 536,587           |
| Less interest      | <u>121,587</u>    |
| Total              | <u>\$ 415,000</u> |

City of East Tawas Contract

The Township entered into an agreement with the City of East Tawas to finance the cost of a sewer lift station. The Township's obligation was originally for \$460,000 with a varying interest rate from 4.10% to 5.80%. The balance remaining at March 31, 2004 was \$260,000.

TOWNSHIP OF BALDWIN  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 8 - LONG-TERM DEBT (CONTINUED)

City of East Tawas Contract (Continued)

The most current estimate of the Township's share of principal and interest requirements for each of the years succeeding March 31, 2004 is as follows:

| <u>Fiscal Year</u> | <u>Amount</u>     |
|--------------------|-------------------|
| 2004 - 05          | \$ 48,535         |
| 2005 - 06          | 61,750            |
| 2006 - 07          | 59,175            |
| 2007 - 08          | 56,600            |
| 2008 - 2009        | <u>78,975</u>     |
|                    | 305,035           |
| Less interest      | <u>45,035</u>     |
| Total              | <u>\$ 260,000</u> |

\$725,000 General Obligation Limited Tax Bonds Dated November 1, 1999 of Iosco County - Proprietary Fund Types (Water Fund)

Said bonds are issued for the purpose of paying a part of the cost of making various improvements in the Huron Hills Shore special assessment district and are payable primarily from, the collection of special assessments in the Huron Hills Shore District for each year beginning on December 1, 1999. Such special assessments and interest thereon shall be sufficient to promptly pay the principal of and interest on the bonds.

The bonds are to be a general obligation of the Township, secured by a pledge of its full faith and credit for the payment of the principal and interest on the bonds.

ANNUAL PRINCIPAL AND INTEREST REQUIREMENTS

| <u>Calendar Year</u> | <u>May 1 Principal</u> | <u>May 1 Interest</u> | <u>November 1 Interest</u> | <u>Total Future Annual Requirements</u> |
|----------------------|------------------------|-----------------------|----------------------------|---|
| 2004                 | \$ 35,000              | \$ 16,088             | \$ 15,125                  | \$ 66,213                               |
| 2005                 | 35,000                 | 15,125                | 14,163                     | 64,288                                  |
| 2006                 | 35,000                 | 14,163                | 13,200                     | 62,363                                  |
| 2007                 | 35,000                 | 13,200                | 12,238                     | 60,438                                  |
| 2008                 | 35,000                 | 12,238                | 11,275                     | 58,513                                  |
| 2009                 | 35,000                 | 11,275                | 10,313                     | 56,588                                  |
| 2010                 | 35,000                 | 10,313                | 9,350                      | 54,663                                  |
| 2011                 | 35,000                 | 9,350                 | 8,387                      | 52,737                                  |
| 2012                 | 35,000                 | 8,387                 | 7,425                      | 50,812                                  |
| 2013                 | 35,000                 | 7,425                 | 6,462                      | 48,887                                  |
| 2014                 | 35,000                 | 6,462                 | 5,500                      | 46,962                                  |
| 2015                 | 35,000                 | 5,500                 | 4,537                      | 45,037                                  |
| 2016                 | 40,000                 | 4,537                 | 3,437                      | 47,974                                  |
| 2017                 | 40,000                 | 3,437                 | 2,337                      | 45,774                                  |
| 2018                 | 40,000                 | 2,337                 | 1,237                      | 43,574                                  |
| 2019                 | <u>45,000</u>          | <u>1,238</u>          | <u>0</u>                   | <u>46,238</u>                           |
|                      | <u>\$ 585,000</u>      | <u>\$ 141,075</u>     | <u>\$ 124,986</u>          | <u>\$ 851,061</u>                       |

TOWNSHIP OF BALDWIN  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 8 - LONG-TERM DEBT (CONTINUED)

\$200,000 General Obligation Limited Tax Bonds Dated September 1, 2000 of Iosco County - Proprietary Fund Types (Water Fund)

Said bonds are issued for the purpose of paying part of the cost of making various improvements in the AuSable Point Special assessment district and are payable primarily from, the collection of special assessments in the AuSable Point District for each year beginning on December 1, 2000. Such special assessments and interest thereon shall be sufficient to promptly pay the principal of and interest on the bonds.

The bonds are to be a general obligation of the Township, secured by a pledge of its full faith and credit for the payment of the principal and interest on the bonds.

ANNUAL PRINCIPAL AND INTEREST REQUIREMENTS

| <u>Calendar Year</u> | <u>May 1 Principal</u> | <u>May 1 Interest</u> | <u>November 1 Interest</u> | <u>Total Future Annual Requirements</u> |
|----------------------|------------------------|-----------------------|----------------------------|---|
| 2004                 | \$ 10,000              | \$ 4,751              | \$ 4,506                   | \$ 19,257                               |
| 2005                 | 10,000                 | 4,506                 | 4,256                      | 18,762                                  |
| 2006                 | 15,000                 | 4,256                 | 3,878                      | 23,134                                  |
| 2007                 | 10,000                 | 3,878                 | 3,623                      | 17,501                                  |
| 2008                 | 10,000                 | 3,623                 | 3,365                      | 16,988                                  |
| 2009                 | 10,000                 | 3,365                 | 3,105                      | 16,470                                  |
| 2010                 | 10,000                 | 3,105                 | 2,843                      | 15,948                                  |
| 2011                 | 10,000                 | 2,843                 | 2,575                      | 15,418                                  |
| 2012                 | 10,000                 | 2,575                 | 2,302                      | 14,877                                  |
| 2013                 | 10,000                 | 2,302                 | 2,025                      | 14,327                                  |
| 2014                 | 10,000                 | 2,025                 | 1,745                      | 13,770                                  |
| 2015                 | 10,000                 | 1,745                 | 1,460                      | 13,205                                  |
| 2016                 | 10,000                 | 1,460                 | 1,172                      | 12,632                                  |
| 2017                 | 10,000                 | 1,172                 | 882                        | 12,054                                  |
| 2018                 | 10,000                 | 882                   | 590                        | 11,472                                  |
| 2019                 | 10,000                 | 590                   | 295                        | 10,885                                  |
| 2020                 | 10,000                 | 295                   | 0                          | 10,295                                  |
|                      | <u>\$ 175,000</u>      | <u>\$ 43,373</u>      | <u>\$ 38,622</u>           | <u>\$ 256,995</u>                       |

\$355,000 General Obligation Limited Tax Bonds Dated January 1, 2003 of Iosco County - Proprietary Fund Types (Water Fund)

Said bonds are issued for the purpose of paying part of the cost of making various improvements in the Birch Drive Special assessment district and are payable primarily from, the collection of special assessments in the Birch Drive District for each year beginning on December 1, 2002. Such special assessments and interest thereon shall be sufficient to promptly pay the principal of and interest on the bonds.

TOWNSHIP OF BALDWIN  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 8 - LONG-TERM DEBT (CONTINUED)

\$355,000 General Obligation Limited Tax Bonds Dated January 1, 2003 of Iosco County - Proprietary Fund Types (Water Fund) (Continued)

The bonds are to be a general obligation of the Township, secured by a pledge of its full faith and credit for the payment of the principal and interest on the bonds.

ANNUAL PRINCIPAL AND INTEREST REQUIREMENTS

| <u>Calendar Year</u> | <u>May 1 Principal</u> | <u>May 1 Interest</u> | <u>November 1 Interest</u> | <u>Total Future Annual Requirements</u> |
|----------------------|------------------------|-----------------------|----------------------------|---|
| 2004                 | \$ 10,000              | \$ 7,488              | \$ 7,300                   | \$ 24,788                               |
| 2005                 | 15,000                 | 7,300                 | 7,019                      | 29,319                                  |
| 2006                 | 15,000                 | 7,019                 | 6,738                      | 28,757                                  |
| 2007                 | 15,000                 | 6,738                 | 6,456                      | 28,194                                  |
| 2008                 | 15,000                 | 6,456                 | 6,175                      | 27,631                                  |
| 2009                 | 15,000                 | 6,175                 | 5,894                      | 27,069                                  |
| 2010                 | 15,000                 | 5,894                 | 5,613                      | 26,507                                  |
| 2011                 | 15,000                 | 5,613                 | 5,313                      | 25,926                                  |
| 2012                 | 15,000                 | 5,313                 | 5,005                      | 25,318                                  |
| 2013                 | 15,000                 | 5,005                 | 4,690                      | 24,695                                  |
| 2014                 | 20,000                 | 4,690                 | 4,260                      | 28,950                                  |
| 2015                 | 20,000                 | 4,260                 | 3,820                      | 28,080                                  |
| 2016                 | 20,000                 | 3,820                 | 3,370                      | 27,190                                  |
| 2017                 | 20,000                 | 3,370                 | 2,915                      | 26,285                                  |
| 2018                 | 20,000                 | 2,915                 | 2,450                      | 25,365                                  |
| 2019                 | 25,000                 | 2,450                 | 1,856                      | 29,306                                  |
| 2020                 | 25,000                 | 1,856                 | 1,250                      | 28,106                                  |
| 2021                 | 25,000                 | 1,250                 | 625                        | 26,875                                  |
| 2022                 | 25,000                 | 625                   | 0                          | 25,625                                  |
|                      | <u>\$ 345,000</u>      | <u>\$ 88,237</u>      | <u>\$ 80,749</u>           | <u>\$ 513,986</u>                       |

General Long-Term Debt

Huron Shore Regional Utilities Authority Contract Payable

The Township entered into a joint water and sewer system agreement for the purpose of constructing additions, extensions, improvements and related appurtenances to the Huron Shore Regional Utility Authority Water and Sewer System No. 1, with the Charter Township of AuSable, the Charter Township of Oscoda, and the City of Tawas City. The most current estimate of the Township's share is 4.16% of the total bond issue of \$1,300,000 or \$54,080. The assets of the joint water supply system are the property of the Huron Shore Regional Utility Authority and, therefore, are not presented in these financial statements. The balance remaining at March 31, 2004 was \$45,760.

TOWNSHIP OF BALDWIN  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 8 - LONG-TERM DEBT (CONTINUED)

Huron Shore Regional Utilities Authority Contract Payable (Continued)

The most current estimate of the Township's share of principal and interest requirements for each of the years succeeding March 31, 2004 is as follows:

| <u>Fiscal Year</u> | <u>Amount</u>    |
|--------------------|------------------|
| 2004 - 05          | \$ 4,549         |
| 2005 - 06          | 5,454            |
| 2006 - 07          | 5,290            |
| 2007 - 08          | 5,124            |
| 2008 - 09          | 4,955            |
| 2009 - 2014        | 26,880           |
| 2014 - 2016        | <u>10,985</u>    |
|                    | 63,237           |
| Less interest      | <u>17,477</u>    |
| Total              | <u>\$ 45,760</u> |

Huron Shore Regional Utilities Authority Contract Payable

The Township entered into a joint water supply system agreement with the cities of East Tawas and Tawas City, and the Charter Townships of AuSable and Oscoda through the Huron Shore Regional Utility Authority to finance the cost of constructing a new water supply system to serve both cities and the three townships. The construction was originally funded with the proceeds of the Iosco County Limited Tax General Obligation Bonds dated March 1, 1991. The most current estimate of the Township's share is 3.47% of the total bond issue of \$7,930,000 or \$275,171. The percentage of payback for each entity will be based on actual gallon usage to be adjusted on an annual basis. The assets of the joint water supply system are the property of the Huron Shore Regional Utility Authority and, therefore, are not presented in these financial statements. The balance remaining at March 31, 2004 was \$139,321.

The most current estimate of the Township's share of principal and interest requirements for each of the years succeeding March 31, 2004 is as follows:

| <u>Fiscal Year</u> | <u>Amount</u>     |
|--------------------|-------------------|
| 2004 - 05          | \$ 27,526         |
| 2005 - 06          | 26,183            |
| 2006 - 07          | 25,878            |
| 2007 - 08          | 24,467            |
| 2008 - 2009        | 23,043            |
| 2009 - 2011        | <u>42,322</u>     |
|                    | 169,419           |
| Less interest      | <u>30,098</u>     |
| Total              | <u>\$ 139,321</u> |

TOWNSHIP OF BALDWIN  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 8 - LONG-TERM DEBT (CONTINUED)

The annual principal requirements for the years ending March 31, 2005 through 2009 for all debts outstanding as of March 31, 2004 are as follows:

|                          | <u>2005</u>       | <u>2006</u>       | <u>2007</u>       | <u>2008</u>       | <u>2009</u>       |
|--------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Contracts payable        | \$ 135,494        | \$ 151,705        | \$ 152,658        | \$ 152,311        | \$ 178,000        |
| General obligation bonds | <u>55,000</u>     | <u>60,000</u>     | <u>65,000</u>     | <u>60,000</u>     | <u>60,000</u>     |
|                          | <u>\$ 190,494</u> | <u>\$ 211,705</u> | <u>\$ 217,658</u> | <u>\$ 212,311</u> | <u>\$ 238,000</u> |

The following is a summary of long-term debt transactions of the Township:

|                               | <u>Balance<br/>April 1, 2003</u> | <u>Increases</u> | <u>Decreases</u>  | <u>Balance<br/>March 31, 2004</u> |
|-------------------------------|----------------------------------|------------------|-------------------|-----------------------------------|
| <u>Enterprise Funds</u>       |                                  |                  |                   |                                   |
| Contracts payable             | \$ 1,226,673                     | \$ 0             | \$ 93,288         | \$ 1,133,385                      |
| General obligation bonds      | <u>1,160,000</u>                 | <u>0</u>         | <u>55,000</u>     | <u>1,105,000</u>                  |
|                               | 2,386,673                        | 0                | 148,288           | 2,238,385                         |
| <u>General Long-Term Debt</u> |                                  |                  |                   |                                   |
| Contracts payable             | <u>211,518</u>                   | <u>0</u>         | <u>26,437</u>     | <u>185,081</u>                    |
| Total                         | <u>\$ 2,598,191</u>              | <u>\$ 0</u>      | <u>\$ 174,725</u> | <u>\$ 2,423,466</u>               |

NOTE 9 - OPERATING TRANSFERS

Operating transfers in/out to other funds consist of the following:

| <u>Fund</u>              | <u>Operating<br/>Transfers In</u> | <u>Fund</u>  | <u>Operating<br/>Transfers Out</u> |
|--------------------------|-----------------------------------|--------------|------------------------------------|
| Road Fund                | \$ 60,893                         | General Fund | \$ 60,893                          |
| Capital Improvement Fund | 22,000                            | General Fund | 22,000                             |
| Water Fund               | 406                               | General Fund | 406                                |
| Sewer Fund               | <u>200,000</u>                    | Water Fund   | <u>200,000</u>                     |
|                          | <u>\$ 283,299</u>                 |              | <u>\$ 283,299</u>                  |

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and use unrestricted revenues collected in the General and Water Funds to finance various programs accounted for in other funds in accordance with budgetary authorizations. A new special revenue fund was created to account for the Road Fund activity. Therefore, prior year accumulated road balances in the General Fund were transferred to the Road Fund accordingly.

TOWNSHIP OF BALDWIN  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 10 - SEGMENT INFORMATION OF ENTERPRISE FUNDS

The Township maintains enterprise funds which provide water and sewer services. Segment information for the year ended March 31, 2004 is as follows:

|                      | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Total<br/>Enterprise<br/>Funds</u> |
|----------------------|-------------------|-------------------|---------------------------------------|
| Operating revenue    | \$ 176,889        | \$ 114,158        | \$ 291,047                            |
| Depreciation expense | \$ 55,063         | \$ 35,613         | \$ 90,676                             |
| Operating income     | \$ 50,309         | \$ 4,958          | \$ 55,267                             |
| Net income (loss)    | \$ (156,579)      | \$ 207,837        | \$ 51,258                             |
| Net working capital  | \$ 1,029,217      | \$ 508,191        | \$ 1,537,408                          |
| Contracts payable    | \$ 458,385        | \$ 675,000        | \$ 1,133,385                          |
| Bonds payable        | \$ 1,105,000      | \$ 0              | \$ 1,105,000                          |
| Total equity         | \$ 2,939,317      | \$ 1,451,601      | \$ 4,390,918                          |

NOTE 11 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Township continues to carry commercial insurance for risks of loss. Settled claims for the commercial insurance have not exceeded the amount of the insurance coverage in any of the past three years.

NOTE 12 - MAINTENANCE CONTRACT

The Township of Baldwin contracts with an outside firm to provide all routine operation, maintenance, billing and receiving functions for the water and sewer operations of the Township. A monthly fee is paid to the firm for standard services and is subject to an annual review. As of March 31, 2004, the monthly fee was \$5,644. For the year ended March 31, 2004, the total amount paid to the firm was \$66,263.

NOTE 13 - RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

|  | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>For the Years Ended<br/>March 31,</u> |                   |
|--|-------------------|-------------------|--|-------------------|
|  |                   |                   | <u>2004</u>                              | <u>2003</u>       |
| Operating income   | \$ 50,309         | \$ 4,958          | \$ 55,267                                | \$ 101,454        |
| Adjustments to reconcile operating income<br>to net cash provided by operating activities: |                   |                   |  |                   |
| Depreciation   | 55,063            | 35,613            | 90,676                                   | 85,776            |
| Connection charges   | 17,102            | 7,501             | 24,603                                   | 8,999             |
| Changes in assets and liabilities:   |                   |                   |  |                   |
| Increase in accounts receivable  | (2,465)           | (2,079)           | (4,544)                                  | (1,587)           |
| Increase in accounts payable   | 490               | 819               | 1,309                                    | 244               |
| Net cash provided by operating activities  | <u>\$ 120,499</u> | <u>\$ 46,812</u>  | <u>\$ 167,311</u>                        | <u>\$ 194,886</u> |



TOWNSHIP OF BALDWIN  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 14 - TOTAL COLUMN ON COMBINED STATEMENTS

The total column on the combined statements is captioned Memorandum Only to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 15 - COMPARATIVE DATA

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Township's financial position and operations. Some prior year balances have been reclassified to conform with current year presentation.

NOTE 16 - NEW REPORTING STANDARD

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The Township is required to implement this standard for the fiscal year ending March 31, 2005. The Township has not yet determined the full impact that adoption of GASB Statement 34 will have on the financial statements

OTHER DATA

REPORT ON OTHER DATA

May 19, 2004

Our audit was conducted for the purpose of forming an opinion on the March 31, 2004 general purpose financial statements taken as a whole. The combining and individual fund financial statements and schedules, EXHIBITS G through P, as of and for the year ended March 31, 2004 with comparative totals for March 31, 2003, are presented for purposes of additional analysis and are not a required part of the 2004 general purpose financial statements of the Township of Baldwin. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements, and in our opinion, is fairly stated in all material respects in relation to the 2004 general purpose financial statements taken as a whole.

*Stephenson, Gratch & Co., P.C.*

TOWNSHIP OF BALDWIN  
Iosco County, Michigan

GENERAL FUND  
 BALANCE SHEET

March 31, 2004

With Comparative Totals for March 31, 2003

|  | <u>2004</u>       | <u>2003</u>       |
|--|-------------------|-------------------|
| <u>ASSETS</u>                          |                   |                   |
| Cash                                   | \$ 26,934         | \$ 28,625         |
| Certificates of deposit                | 15,000            | 15,000            |
| Investments                            | 275,319           | 294,794           |
| Due from other funds                   | 2,125             | 2,328             |
| Total Assets                           | <u>\$ 319,378</u> | <u>\$ 340,747</u> |
| <br><u>LIABILITIES AND FUND EQUITY</u> |                   |                   |
| <u>Liabilities</u>                     |                   |                   |
| Accounts payable                       | \$ 1,101          | \$ 1,117          |
| Accrued liabilities                    | 11                | 10                |
| Due to other funds                     | 376               | 105               |
| Total liabilities                      | <u>1,488</u>      | <u>1,232</u>      |
| <br><u>Fund Equity</u>                 |                   |                   |
| Fund Balance:                          |                   |                   |
| Unreserved:                            |                   |                   |
| Undesignated                           | <u>317,890</u>    | <u>339,515</u>    |
| Total Liabilities and Fund Equity      | <u>\$ 319,378</u> | <u>\$ 340,747</u> |

TOWNSHIP OF BALDWIN  
Iosco County, Michigan

GENERAL FUND  
 STATEMENT OF REVENUE - BUDGET AND ACTUAL  
 For the Year Ended March 31, 2004  
With Comparative Actual Amounts for the Year Ended March 31, 2003

|                             | 2004              |                   | 2003              |
|-----------------------------|-------------------|-------------------|-------------------|
|                             | Budget            | Actual            | Actual            |
| <u>Taxes</u>                |                   |                   |                   |
| Current property taxes      | \$ 64,682         | \$ 58,682         | \$ 57,106         |
| Special assessments         | 0                 | 0                 | 16,857            |
| Collection fees             | 29,803            | 32,795            | 33,631            |
| Other                       | 200               | 76                | 188               |
|                             | <u>94,685</u>     | <u>91,553</u>     | <u>107,782</u>    |
| Licenses and Permits        | <u>1,800</u>      | <u>3,425</u>      | <u>1,945</u>      |
| Federal Grants              | <u>5,125</u>      | <u>5,125</u>      | <u>0</u>          |
| State Revenue Sharing       | <u>130,592</u>    | <u>124,583</u>    | <u>124,133</u>    |
| <u>Charges for Services</u> |                   |                   |                   |
| Road oil                    | 0                 | 0                 | 6,213             |
| Miscellaneous               | <u>12,270</u>     | <u>12,223</u>     | <u>12,135</u>     |
|                             | <u>12,270</u>     | <u>12,223</u>     | <u>18,348</u>     |
| Interest Earned             | <u>4,450</u>      | <u>3,891</u>      | <u>4,476</u>      |
| <u>Other Revenue</u>        |                   |                   |                   |
| Refunds and reimbursements  | <u>910</u>        | <u>1,795</u>      | <u>1,466</u>      |
| Total Revenue               | <u>\$ 249,832</u> | <u>\$ 242,595</u> | <u>\$ 258,150</u> |

TOWNSHIP OF BALDWIN  
Iosco County, Michigan

GENERAL FUND  
 STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL  
 For the Year Ended March 31, 2004  
With Comparative Actual Amounts for the Year Ended March 31, 2003

|   | 2004              |                   | 2003              |
|---|-------------------|-------------------|-------------------|
|   | Budget            | Actual            | Actual            |
| <u>General Government</u>                   |                   |                   |                   |
| Township Board                              | \$ 13,090         | \$ 4,952          | \$ 5,034          |
| Supervisor                                  | 25,448            | 25,084            | 21,902            |
| Elections                                   | 375               | 0                 | 2,390             |
| Legal and audit                             | 8,700             | 6,582             | 6,050             |
| Assessor                                    | 28,188            | 27,122            | 26,133            |
| Clerk                                       | 23,692            | 22,602            | 21,920            |
| Treasurer                                   | 26,066            | 26,063            | 25,463            |
| Board of review                             | 1,440             | 1,110             | 1,302             |
| Township hall                               | 27,485            | 21,920            | 19,486            |
|   | <u>154,484</u>    | <u>135,435</u>    | <u>129,680</u>    |
| <u>Public Works</u>                         |                   |                   |                   |
| Highway and bridges                         | 100               | 0                 | 64,997            |
| Street lighting                             | 12,000            | 11,651            | 11,540            |
|   | <u>12,100</u>     | <u>11,651</u>     | <u>76,537</u>     |
| Recreation                                  | 2,000             | 655               | 465               |
| <u>Other Functions</u>                      |                   |                   |                   |
| Planning and zoning                         | 22,830            | 20,484            | 16,174            |
| Insurance and bonds                         | 8,498             | 8,498             | 7,518             |
| Capital outlay                              | 13,565            | 2,245             | 1,394             |
| Miscellaneous                               | 3,100             | 1,953             | 1,898             |
|   | <u>47,993</u>     | <u>33,180</u>     | <u>26,984</u>     |
| <u>Other Financing Uses</u>                 |                   |                   |                   |
| Operating transfers out                     | 22,000            | 83,299            | 0                 |
| Total Expenditures and Other Financing Uses | <u>\$ 238,577</u> | <u>\$ 264,220</u> | <u>\$ 233,666</u> |

TOWNSHIP OF BALDWIN  
Iosco County, Michigan

ALL SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET

March 31, 2004

With Comparative Totals for March 31, 2003

|                                    | Road<br>Fund | Fire<br>Fund | Refuse<br>Collection<br>Fund | Capital<br>Improvement<br>Fund | Downtown<br>Development<br>Authority Fund | Totals            |                   |
|------------------------------------|--------------|--------------|------------------------------|--------------------------------|---|-------------------|-------------------|
|                                    |              |              |                              |                                |   | March 31,<br>2004 | March 31,<br>2003 |
| <b>ASSETS</b>                      |              |              |                              |                                |   |                   |                   |
| Cash                               | \$ 0         | \$ 82,999    | \$ 0                         | \$ 0                           | \$ 323,529                                | \$ 406,528        | \$ 327,770        |
| Investments                        | 79,614       | 0            | 228,092                      | 25,695                         | 0   | 333,401           | 230,409           |
| Taxes receivable                   | 0            | 0            | 0                            | 0                              | 67,519                                    | 67,519            | 94,512            |
| Due from other funds               | 101          | 215          | 332                          | 0                              | 0   | 648               | 89                |
| Total Assets                       | \$ 79,715    | \$ 83,214    | \$ 228,424                   | \$ 25,695                      | \$ 391,048                                | \$ 808,096        | \$ 652,780        |
| <b>LIABILITIES AND FUND EQUITY</b> |              |              |                              |                                |   |                   |                   |
| <b>Liabilities</b>                 |              |              |                              |                                |   |                   |                   |
| Accounts payable                   | \$ 0         | \$ 0         | \$ 7,011                     | \$ 0                           | \$ 0                                      | \$ 7,011          | \$ 23,359         |
| Due to other funds                 | 995          | 2,618        | 4,044                        | 0                              | 0   | 7,657             | 12,650            |
| Total liabilities                  | 995          | 2,618        | 11,055                       | 0                              | 0   | 14,668            | 36,009            |
| <b>Fund Equity</b>                 |              |              |                              |                                |   |                   |                   |
| Fund Balances:                     |              |              |                              |                                |   |                   |                   |
| Unreserved:                        |              |              |                              |                                |   |                   |                   |
| Undesignated                       | 78,720       | 80,596       | 217,369                      | 25,695                         | 391,048                                   | 793,428           | 616,771           |
| Total Liabilities and Fund Equity  | \$ 79,715    | \$ 83,214    | \$ 228,424                   | \$ 25,695                      | \$ 391,048                                | \$ 808,096        | \$ 652,780        |

TOWNSHIP OF BALDWIN  
Iosco County, Michigan

ALL SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
For the Year Ended March 31, 2004  
With Comparative Totals for the Year Ended March 31, 2003

|   | Road<br>Fund     | Fire<br>Fund     | Refuse<br>Collection<br>Fund | Capital<br>Improvement<br>Fund | Downtown<br>Development<br>Authority Fund | Totals            |
|---|------------------|------------------|------------------------------|--------------------------------|---|-------------------|
|   |                  |                  |                              |                                |   | March 31,<br>2004 |
|   |                  |                  |                              |                                |   | March 31,<br>2003 |
| <u>Revenue</u>  |                  |                  |                              |                                |   |                   |
| Taxes   | \$ 38,367        | \$ 81,325        | \$ 125,898                   | \$ 0                           | \$ 67,519                                 | \$ 331,937        |
| Charges for services  | 5,973            | 0                | 0                            | 0                              | 0   | 5,973             |
| Interest earned   | 303              | 203              | 1,232                        | 168                            | 2,302                                     | 4,208             |
| Total revenue   | <u>44,643</u>    | <u>81,528</u>    | <u>127,130</u>               | <u>168</u>                     | <u>69,821</u>                             | <u>323,290</u>    |
|   |                  |                  |                              |                                |   | <u>338,717</u>    |
| <u>Expenditures</u>   |                  |                  |                              |                                |   |                   |
| Public safety   | 0                | 66,162           | 0                            | 0                              | 0   | 66,162            |
| Public works  | 63,807           | 0                | 83,046                       | 0                              | 0   | 146,853           |
| Other   | 0                | 0                | 0                            | 0                              | 4,330                                     | 4,330             |
| Capital outlay  | 0                | 0                | 0                            | 1,540                          | 10,641                                    | 12,181            |
| Total expenditures  | <u>63,807</u>    | <u>66,162</u>    | <u>83,046</u>                | <u>1,540</u>                   | <u>14,971</u>                             | <u>229,526</u>    |
|   |                  |                  |                              |                                |   | <u>365,305</u>    |
| Excess of revenue over (under) expenditures                                     | <u>(19,164)</u>  | <u>15,366</u>    | <u>44,084</u>                | <u>(1,372)</u>                 | <u>54,850</u>                             | <u>93,764</u>     |
|   |                  |                  |                              |                                |   | <u>(26,588)</u>   |
| <u>Other Financing Sources (Uses)</u>   |                  |                  |                              |                                |   |                   |
| Operating transfers in  | 60,893           | 0                | 0                            | 22,000                         | 0   | 82,893            |
| Operating transfers out   | 0                | 0                | 0                            | 0                              | 0   | 0                 |
| Total other financing sources (uses)  | <u>60,893</u>    | <u>0</u>         | <u>0</u>                     | <u>22,000</u>                  | <u>0</u>                                  | <u>82,893</u>     |
|   |                  |                  |                              |                                |   | <u>7,676</u>      |
|   |                  |                  |                              |                                |   | <u>(7,676)</u>    |
|   |                  |                  |                              |                                |   | <u>0</u>          |
| Excess of revenue and other sources over<br>(under) expenditures and other uses | <u>41,729</u>    | <u>15,366</u>    | <u>44,084</u>                | <u>20,628</u>                  | <u>54,850</u>                             | <u>176,657</u>    |
|   |                  |                  |                              |                                |   | <u>(26,588)</u>   |
| Fund balances - beginning of year   | <u>36,991</u>    | <u>65,230</u>    | <u>173,285</u>               | <u>5,067</u>                   | <u>336,198</u>                            | <u>643,359</u>    |
| Fund balances - end of year   | <u>\$ 78,720</u> | <u>\$ 80,596</u> | <u>\$ 217,369</u>            | <u>\$ 25,695</u>               | <u>\$ 391,048</u>                         | <u>\$ 793,428</u> |
|   |                  |                  |                              |                                |   | <u>\$ 616,771</u> |



TOWNSHIP OF BALDWIN  
Iosco County, Michigan

ALL PROPRIETARY FUND TYPES - ENTERPRISE FUNDS  
 COMBINING BALANCE SHEET

March 31, 2004

With Comparative Totals for March 31, 2003

|                                    |                     |                     | Totals              |                     |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                    | Water<br>Fund       | Sewer<br>Fund       | March 31,<br>2004   | March 31,<br>2003   |
| <u>ASSETS</u>                      |                     |                     |                     |                     |
| Cash                               | \$ 227,552          | \$ 25,059           | \$ 252,611          | \$ 221,664          |
| Certificates of deposit            | 207,563             | 0                   | 207,563             | 113,395             |
| Cash - escrow bond account         | 9,615               | 0                   | 9,615               | 261,607             |
| Investments                        | 577,320             | 476,649             | 1,053,969           | 1,421,222           |
| Receivables:                       |                     |                     |                     |                     |
| Taxes                              | 3,839               | 0                   | 3,839               | 2,771               |
| Assessments                        | 917,401             | 70,640              | 988,041             | 1,093,421           |
| Accounts                           | 14,959              | 12,654              | 27,613              | 23,069              |
| Due from other funds               | 7,777               | 0                   | 7,777               | 11,543              |
| Restricted assets:                 |                     |                     |                     |                     |
| Cash                               | 160,321             | 100,625             | 260,946             | 0                   |
| Prepaid expense                    | 0                   | 0                   | 0                   | 7,771               |
| Property and plant                 | 2,936,641           | 1,780,588           | 4,717,229           | 4,350,183           |
| Accumulated depreciation           | (540,878)           | (333,443)           | (874,321)           | (783,645)           |
| Total Assets                       | <u>\$ 4,522,110</u> | <u>\$ 2,132,772</u> | <u>\$ 6,654,882</u> | <u>\$ 6,723,001</u> |
| <u>LIABILITIES AND FUND EQUITY</u> |                     |                     |                     |                     |
| <u>Liabilities</u>                 |                     |                     |                     |                     |
| Accounts payable                   | \$ 2,706            | \$ 5,321            | \$ 8,027            | \$ 22,518           |
| Accrued interest                   | 16,357              | 0                   | 16,357              | 14,088              |
| Due to other funds                 | 345                 | 850                 | 1,195               | 345                 |
| Contracts payable                  | 458,385             | 675,000             | 1,133,385           | 1,226,673           |
| Bonds payable                      | 1,105,000           | 0                   | 1,105,000           | 1,160,000           |
| Total liabilities                  | <u>1,582,793</u>    | <u>681,171</u>      | <u>2,263,964</u>    | <u>2,423,624</u>    |
| <u>Fund Equity</u>                 |                     |                     |                     |                     |
| Contributed capital, net           | 2,187,390           | 782,023             | 2,969,413           | 3,001,239           |
| Retained Earnings:                 |                     |                     |                     |                     |
| Reserved for capital improvements  | 160,321             | 100,625             | 260,946             | 0                   |
| Unreserved                         | 591,606             | 568,953             | 1,160,559           | 1,298,138           |
| Total fund equity                  | <u>2,939,317</u>    | <u>1,451,601</u>    | <u>4,390,918</u>    | <u>4,299,377</u>    |
| Total Liabilities and Fund Equity  | <u>\$ 4,522,110</u> | <u>\$ 2,132,772</u> | <u>\$ 6,654,882</u> | <u>\$ 6,723,001</u> |

TOWNSHIP OF BALDWIN  
Iosco County, Michigan

ALL PROPRIETARY FUND TYPES - ENTERPRISE FUNDS  
 COMBINING STATEMENT OF REVENUE, EXPENSES  
 AND CHANGES IN RETAINED EARNINGS  
 For the Year Ended March 31, 2004  
With Comparative Totals for the Year Ended March 31, 2003

|   | Water<br>Fund     | Sewer<br>Fund     | Totals              |                     |
|---|-------------------|-------------------|---------------------|---------------------|
|   |                   |                   | March 31,<br>2004   | March 31,<br>2003   |
| <u>Operating Revenue</u>                |                   |                   |                     |                     |
| Charges for service                     | \$ 172,862        | \$ 111,247        | \$ 284,109          | \$ 302,886          |
| Interest earned                         | 3,109             | 711               | 3,820               | 2,974               |
| Other                                   | 918               | 2,200             | 3,118               | 0                   |
| Total operating revenue                 | <u>176,889</u>    | <u>114,158</u>    | <u>291,047</u>      | <u>305,860</u>      |
| <u>Operating Expenses</u>               |                   |                   |                     |                     |
| Operating supplies                      | 14                | 770               | 784                 | 0                   |
| Professional fees and services          | 63,942            | 38,125            | 102,067             | 71,828              |
| Water and sewer                         | 0                 | 26,751            | 26,751              | 26,067              |
| Depreciation                            | 55,063            | 35,613            | 90,676              | 85,776              |
| Other                                   | 7,561             | 7,941             | 15,502              | 20,735              |
| Total operating expenses                | <u>126,580</u>    | <u>109,200</u>    | <u>235,780</u>      | <u>204,406</u>      |
| Operating income                        | <u>50,309</u>     | <u>4,958</u>      | <u>55,267</u>       | <u>101,454</u>      |
| <u>Non-Operating Revenue (Expenses)</u> |                   |                   |                     |                     |
| Current property taxes                  | 46,545            | 0                 | 46,545              | 44,528              |
| Special assessments                     | 0                 | 37,617            | 37,617              | 29,823              |
| Interest on special assessments         | 58,374            | 5,490             | 63,864              | 70,757              |
| Interest on investments                 | 6,815             | 3,386             | 10,201              | 19,620              |
| Bond acquisition costs                  | 0                 | 0                 | 0                   | (30,537)            |
| Contract payments                       | (22,036)          | 0                 | (22,036)            | (21,300)            |
| Interest expense                        | (95,620)          | (42,389)          | (138,009)           | (129,997)           |
| Paying agent fees                       | (1,372)           | (1,225)           | (2,597)             | (1,397)             |
| Total non-operating revenue (expenses)  | <u>(7,294)</u>    | <u>2,879</u>      | <u>(4,415)</u>      | <u>(18,503)</u>     |
| Income before operating transfers       | <u>43,015</u>     | <u>7,837</u>      | <u>50,852</u>       | <u>82,951</u>       |
| <u>Other Financing Sources (Uses)</u>   |                   |                   |                     |                     |
| Operating transfers in                  | 406               | 200,000           | 200,406             | 0                   |
| Operating transfers out                 | (200,000)         | 0                 | (200,000)           | 0                   |
| Total other financing sources (uses)    | <u>(199,594)</u>  | <u>200,000</u>    | <u>406</u>          | <u>0</u>            |
| Net income (loss)                       | <u>(156,579)</u>  | <u>207,837</u>    | <u>51,258</u>       | <u>82,951</u>       |
| Amortization of contributed capital     | 50,686            | 21,423            | 72,109              | 71,198              |
| Retained earnings - beginning of year   | <u>857,820</u>    | <u>440,318</u>    | <u>1,298,138</u>    | <u>1,143,989</u>    |
| Retained earnings - end of year         | <u>\$ 751,927</u> | <u>\$ 669,578</u> | <u>\$ 1,421,505</u> | <u>\$ 1,298,138</u> |

TOWNSHIP OF BALDWIN  
Iosco County, Michigan

ALL PROPRIETARY FUND TYPES - ENTERPRISE FUNDS  
STATEMENT OF REVENUE, EXPENSES AND CHANGES  
IN RETAINED EARNINGS - BUDGET AND ACTUAL  
For the Year Ended March 31, 2004

|   | Budget              | Actual              | Variance -<br>Favorable<br>(Unfavorable) |
|---|---------------------|---------------------|--|
| <u>Operating Revenue</u>                |                     |                     |  |
| Charges for service                     | \$ 273,096          | \$ 284,109          | \$ 11,013                                |
| Interest earned                         | 4,367               | 3,820               | (547)                                    |
| Other                                   | 4,104               | 3,118               | (986)                                    |
| Total operating revenue                 | <u>281,567</u>      | <u>291,047</u>      | <u>9,480</u>                             |
| <u>Operating Expenses</u>               |                     |                     |  |
| Operating supplies                      | 786                 | 784                 | 2  |
| Professional fees and services          | 103,513             | 102,067             | 1,446                                    |
| Water and sewer                         | 33,561              | 26,751              | 6,810                                    |
| Depreciation                            | 93,542              | 90,676              | 2,866                                    |
| Other                                   | 18,114              | 15,502              | 2,612                                    |
| Total operating expenses                | <u>249,516</u>      | <u>235,780</u>      | <u>13,736</u>                            |
| Operating income                        | <u>32,051</u>       | <u>55,267</u>       | <u>23,216</u>                            |
| <u>Non-Operating Revenue (Expenses)</u> |                     |                     |  |
| Current property taxes                  | 50,832              | 46,545              | (4,287)                                  |
| Special assessments                     | 28,377              | 37,617              | 9,240                                    |
| Interest on special assessments         | 66,208              | 63,864              | (2,344)                                  |
| Interest on investments                 | 11,919              | 10,201              | (1,718)                                  |
| Contract payments                       | (22,100)            | (22,036)            | 64                                       |
| Interest expense and paying agent fees  | (135,732)           | (138,009)           | (2,277)                                  |
| Paying agent fees                       | (2,950)             | (2,597)             | 353                                      |
| Total non-operating revenue (expenses)  | <u>(3,446)</u>      | <u>(4,415)</u>      | <u>(969)</u>                             |
| Income before operating transfers       | <u>28,605</u>       | <u>50,852</u>       | <u>22,247</u>                            |
| <u>Other Financing Sources (Uses)</u>   |                     |                     |  |
| Operating transfers in                  | 0                   | 200,406             | 200,406                                  |
| Operating transfers out                 | 0                   | (200,000)           | (200,000)                                |
| Total other financing sources (uses)    | <u>0</u>            | <u>406</u>          | <u>406</u>                               |
| Net income                              | 28,605              | 51,258              | 22,653                                   |
| Amortization of contributed capital     | 60,690              | 72,109              | 11,419                                   |
| Retained earnings - beginning of year   | <u>1,298,138</u>    | <u>1,298,138</u>    | <u>0</u>                                 |
| Retained earnings - end of year         | <u>\$ 1,387,433</u> | <u>\$ 1,421,505</u> | <u>\$ 34,072</u>                         |

TOWNSHIP OF BALDWIN  
Iosco County, Michigan

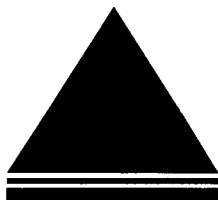
ALL PROPRIETARY FUND TYPES - ENTERPRISE FUNDS  
COMBINING STATEMENT OF CASH FLOWS  
For the Year Ended March 31, 2004  
With Comparative Totals for the Year Ended March 31, 2003

|   | Water<br>Fund     | Sewer<br>Fund     | Totals              |                     |
|---|-------------------|-------------------|---------------------|---------------------|
|   |                   |                   | March 31,<br>2004   | March 31,<br>2003   |
| <u>Cash Flows From Operating Activities</u>                     |                   |                   |                     |                     |
| Cash received from customers                                    | \$ 188,417        | \$ 118,868        | \$ 307,285          | \$ 310,298          |
| Cash paid to suppliers and employees                            | (71,027)          | (72,767)          | (143,794)           | (118,386)           |
| Interest received   | 3,109             | 711               | 3,820               | 2,974               |
| Net cash provided by operating activities                       | <u>120,499</u>    | <u>46,812</u>     | <u>167,311</u>      | <u>194,886</u>      |
| <u>Cash Flows From Noncapital Financing Activities</u>          |                   |                   |                     |                     |
| Property taxes received   | 45,639            | 0                 | 45,639              | 45,038              |
| Special assessments received                                    | 162,723           | 59,657            | 222,380             | 218,795             |
| Cash received from (paid to) other funds                        | (195,828)         | 200,850           | 5,022               | (4,201)             |
| Net cash provided by noncapital financing activities            | <u>12,534</u>     | <u>260,507</u>    | <u>273,041</u>      | <u>259,632</u>      |
| <u>Cash Flows From Capital and Related Financing Activities</u> |                   |                   |                     |                     |
| Proceeds from issuance of bonds                                 | 0                 | 0                 | 0                   | 355,000             |
| Acquisition and construction of capital assets                  | (382,846)         | 0                 | (382,846)           | (77,588)            |
| Bond acquisition costs paid                                     | 0                 | 0                 | 0                   | (30,537)            |
| Principal paid on contracts and bonds payable                   | (88,288)          | (60,000)          | (148,288)           | (132,252)           |
| Other contract payments   | (22,036)          | 0                 | (22,036)            | (21,300)            |
| Interest and fees paid on contracts payable                     | (86,952)          | (43,614)          | (130,566)           | (139,977)           |
| Net cash used by capital and related financing activities       | <u>(580,122)</u>  | <u>(103,614)</u>  | <u>(683,736)</u>    | <u>(46,654)</u>     |
| <u>Cash Flows From Investing Activities</u>                     |                   |                   |                     |                     |
| Purchase of investments   | (91,325)          | 0                 | (91,325)            | 0                   |
| Interest received on investments                                | 3,971             | 3,386             | 7,357               | 17,390              |
| Net cash provided (used) by investing activities                | <u>(87,354)</u>   | <u>3,386</u>      | <u>(83,968)</u>     | <u>17,390</u>       |
| Net increase (decrease) in cash and cash equivalents            | (534,443)         | 207,091           | (327,352)           | 425,254             |
| Cash and cash equivalents at beginning of year                  | <u>1,509,251</u>  | <u>395,242</u>    | <u>1,904,493</u>    | <u>1,479,239</u>    |
| Cash and cash equivalents at end of year                        | <u>\$ 974,808</u> | <u>\$ 602,333</u> | <u>\$ 1,577,141</u> | <u>\$ 1,904,493</u> |

TOWNSHIP OF BALDWIN  
Iosco County, Michigan

ALL TRUST AND AGENCY FUNDS  
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
For the Year Ended March 31, 2004

|                       | Balance<br>April 1, 2003 | Additions           | Deductions          | Balance<br>March 31, 2004 |
|-----------------------|--------------------------|---------------------|---------------------|---------------------------|
| <u>Tax Account</u>    |                          |                     |                     |                           |
| Cash and investments  | \$ 1,972                 | \$ 2,521,006        | \$ 2,519,280        | \$ 3,698                  |
| Due from (to) schools | 5,295                    | 1,114,489           | 1,120,790           | (1,006)                   |
| Due from (to) state   | 1,239                    | 414,214             | 415,660             | (207)                     |
| Due to other funds    | (860)                    | 531,845             | 532,307             | (1,322)                   |
| Due to local units    | (165)                    | 448,862             | 449,850             | (1,153)                   |
| Due to others         | (7,481)                  | 9,870               | 2,399               | (10)                      |
|                       | <u>\$ 0</u>              | <u>\$ 5,040,286</u> | <u>\$ 5,040,286</u> | <u>\$ 0</u>               |



*Stephenson, Gracik & Co., P.C.*  
Certified Public Accountants & Consultants

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Gerald D. Gracik Jr., CPA  
James J. Gracik, CPA  
E. Thad Gray, CPA  
Donald W. Brannan, CPA  
Kyle E. Troyer, CPA  
Herman A. Bertuleit, CPA

May 19, 2004

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Township Board  
Township of Baldwin  
Iosco County, Michigan

We have audited the general purpose financial statements of the Township of Baldwin, as of and for the year ended March 31, 2004, and have issued our report thereon dated May 19, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Township of Baldwin's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Township of Baldwin in a separate letter dated May 19, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township of Baldwin's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Township Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Gracik & Co., P.C.*



*Stephenson, Gracik & Co., P.C.*  
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Kyle E. Troyer, CPA

Herman A. Bertuleit, CPA

May 19, 2004

Members of the Township Board  
Township of Baldwin  
Iosco County, Michigan

Dear Board Members:

We have audited the general purpose financial statements of the Township of Baldwin for the year ended March 31, 2004, and have issued our report thereon dated May 19, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated January 27, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the general purpose financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the Township of Baldwin's internal control. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the Township of Baldwin's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Township of Baldwin are described in Note 1 to the general purpose financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Township of Baldwin during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the general purpose financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Township of Baldwin's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Township of Baldwin, either individually or in the aggregate, indicate matters that could have a significant effect on the Township of Baldwin's financial reporting process.

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West Branch

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Members:  
A.I.C.P.A.  
M.A.C.P.A.

# Stephenson, Gracik & Co., P.C.

Members of the Township Board  
Township of Baldwin  
May 19, 2004  
Page Two

## Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

## Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

## Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township of Baldwin's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

## Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

## Additional Information

As a result of our study and evaluation of the internal controls as described in the third paragraph, one matter came to our attention upon which we would like to comment and offer the following recommendations:

### Budget Control

The Township of Baldwin's general fund included expenditures in the operating transfer out account that exceeded appropriated amounts. We recommend that the Township Board amend the budgets as needed and take into consideration recurring year end audit adjustments.

### GASB 34 Implementation

### New Financial Accounting Standards Affecting Governments

The format for governmental financial statements has been revised by the Governmental Accounting Standards Board (GASB), the organization responsible for promulgating accounting standards which governments must follow. The Statement, GASB Statement 34, requires these changes be implemented by all governmental units over the next several years. Significant changes from the current presentation include:

1. The addition of a transmittal letter describing management's analysis of the financial statements and current financial condition of the governmental unit.
2. The presentation of "Government Wide Financial Statements" on a full accrual accounting basis as opposed to the current "modified accrual basis".
3. The inclusion of "Individual and Combining Fund Financial Statements" presented on their existing basis of accounting including a reconciliation with the Government Wide Financial Statements.
4. The reporting of governmental activity expenditures net of "program revenues" to determine activity costs funded by public dollars (i.e. taxes, interest, etc.).



Stephenson, Gracik & Co., P.C.

Members of the Township Board  
Township of Baldwin  
May 19, 2004  
Page Three

5. The requirement to report the value of infrastructure assets (i.e. road, bridges, etc.) as assets on the balance sheet of the governmental unit.
6. The requirement to report depreciation on all fixed assets, including infrastructure assets and general fixed assets.
7. The requirement to report both the original adopted budget and the final budget in the Budget to Actual comparative operating financial statement.

If adopted, the Township of Baldwin will need to implement these changes by the year ended March 31, 2005.

Alternative Option Available

Currently, the State of Michigan Department of Treasury has passed a policy to allow the following departures from the above standards without sanctions against the unit of government.

- Omission of Management's Discussion and Analysis
- Omission of Government Wide Financial Statements
- Omission of Infrastructure Asset Reporting

If units of government elect to omit the above listed items, a "qualified" independent auditor's opinion will be issued by the CPA firm on the financial statements. The effect of the qualification is expected to be minimal.

The new reporting standards have wide-sweeping implications in terms of identifying and accumulating information to comply with the standard. We would be happy to discuss with you the options available to the Township of Baldwin and to assist in their implementation.

This information is intended solely for the use of management, Township Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Gracik & Co., P.C.*